



NAI Horizon

1st Quarter
2018
Retail
Market Report

Is e-Commerce Really Taking Over?

Pop Quiz:

e-Commerce in the United States represents what percentage of total sales?

A: 25% B: 45% C: 9% D: 80%

According to the media reports, the answer is D. Every day, stories of retail closures dominate the news with an alarming tone that e-Commerce is taking over the retail space. The real answer according to the U.S. Department of Commerce, 9% in 2017.

That statistic suggests that people are out shopping, eating, experiencing and utilizing services...The Greater Phoenix Quarter 1, 2018 retail numbers certainly illustrate this dynamic.

Average vacancy rates in the Valley shrunk down to 7.5%, down from 7.8% in Quarter 4, 2017. The Sky Harbor Airport sub-market leads the pack with the lowest vacancy rate of 5%. Absorption continued its impressive trajectory hitting 870,000 square feet in Quarter 1.

Certainly the composition of retail is undergoing transformation, the big box retailers are reducing their footprint, and brands and companies not meeting consumer's expectations or needs shutter. But, that has always been the case for poorly performing big box retailers regardless of e-Commerce: Gimbels, Montgomery Ward and Circuit City are just a few examples of retail giants that have closed down in the last 3 decades.

RETAIL TRENDS



Corporate restaurants are not shut out either, growth in the Valley remains strong as these business deliver their customers a value or experience proposition.

The formula is certainly working, operators in some submarkets are forking out \$50 per square foot, or more, for premium space. One caveat, the increase in the minimum wage could weaken restaurateurs bottom line. As the dollar amount restaurateurs expend on payroll each month increases the financial capacity to pay top dollar for their space could diminish unless they are able to see that differential returned in sales.

On the value narrative, retailers are discovering that customers will travel to the brick and mortar location if there are real opportunities to purchase quality products at a great price. The expanding footprint of Michaels, Ross Stores and TJ Maxx in Greater Phoenix showcase that this approach can compete with e-Commerce.

The grocery-anchored tenant community shopping center trend is as strong as ever into 2018. Consumers can utilize the hairdresser, medical clinic, massage and banking services at locations, and then shop for fresh foods at their grocer of choice.

One noticeable alteration from 2017 into 2018, the beginnings of saturation in the athletic/workout space. With a proliferation of names: Orange Theory, Planet Fitness and EOS Fitness among others, the Valley continues to provide plenty of options for consumers.

The first quarter of 2018 brings retail's growth posture to full charge ahead mode, with expectations of a cycle that could extend several more years, even as e-Commerce sales hit double digits.

Metro Phoenix's retail landscape follows 2017 patterns towards experiences and creative consumer offerings. Fashion Square's Luxury Wing expansion and renovation play into this positioning with the likes of high end fashion designers normally seen adorning the storefronts on Rodeo Drive or 5th Ave.

Eateries also continue to prosper, providing customers with offerings and experiences that are best enjoyed at brick and mortar locations. Local restaurateurs like Fox Restaurant Concepts and Square One Concepts continue to expand their footprint Valleywide.

ECONOMIC TRENDS



Q1 2018

RETAIL MARKET METRO PHOENIX

Phoenix Market Snapshot

Market Overview	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Power/Lifestyle	32,304,772 SF	1,808,720 SF	5.6%	184,045 SF	50,000 SF	60,655 SF	\$19.07 NNN
Regional Mall	15,602,281 SF	734,256 SF	4.7%	6,331 SF	-	14,367 SF	\$15.00 NNN
General	71,275,717 SF	2,952,551 SF	4.1%	337,600 SF	116,382 SF	756,804 SF	\$17.79 NNN
Shopping Center	109,604,601 SF	11,686,452 SF	10.7%	290,960 SF	42,756 SF	293,931 SF	\$14.35 NNN
Overall Total	228,787,371 SF	17,181,979 SF	7.5%	818,936 SF	209,138 SF	1,125,757 SF	\$15.26 NNN

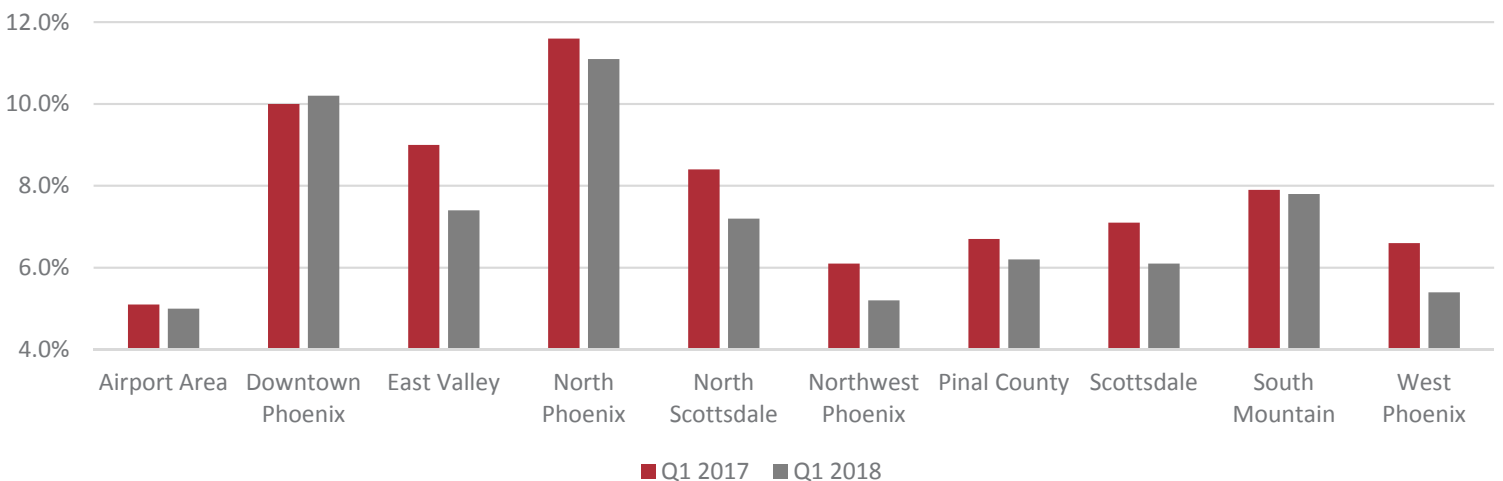
Significant Lease Transactions

Address	Tenant	Size	Submarket	Type
3131 E Indian School Rd	JOANN Fabrics	16,000 SF	Central Scottsdale	Direct
15450 N 84th St	New Look Collision	15,620 SF	North Scottsdale	Direct
11470 N Dysart Rd	RideNow Powersports	15,611 SF	Glendale	Direct

Significant Sale Transactions

Address	Date	Size	Sale Price	Price/SF
Safeway	3/7/2018	57,618 SF	\$18.3M	\$317.61
Arrowhead Lakes Marketplace	2/22/2018	51,967 SF	\$4.7M	\$90.34
Junction Shoppes	1/10/2018	62,602 SF	\$1.9M	\$30.75

Retail Submarket Vacancy Rates



The Retail Market is a compilation that includes general retail, regional mall, power and lifestyle centers and shopping center buildings. Some information contained herein has been obtained from third party sources deemed reliable but has not been independently verified by NAI Horizon. NAI Horizon makes no warranties or representations as to the completeness or accuracy thereof. NAI Horizon makes no guarantee about projections, opinions, assumptions or estimates. Occasionally corrected or updated information becomes available for both current and historical data thereby invalidating specific comparison to previously issued reports.

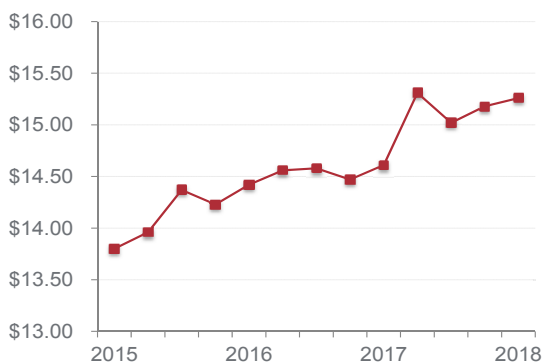
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RETAIL MARKET METRO PHOENIX

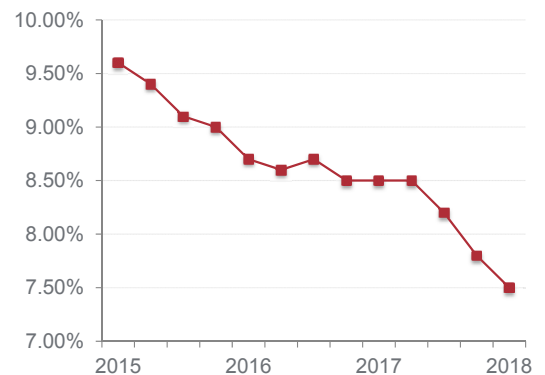
Submarket Snapshot

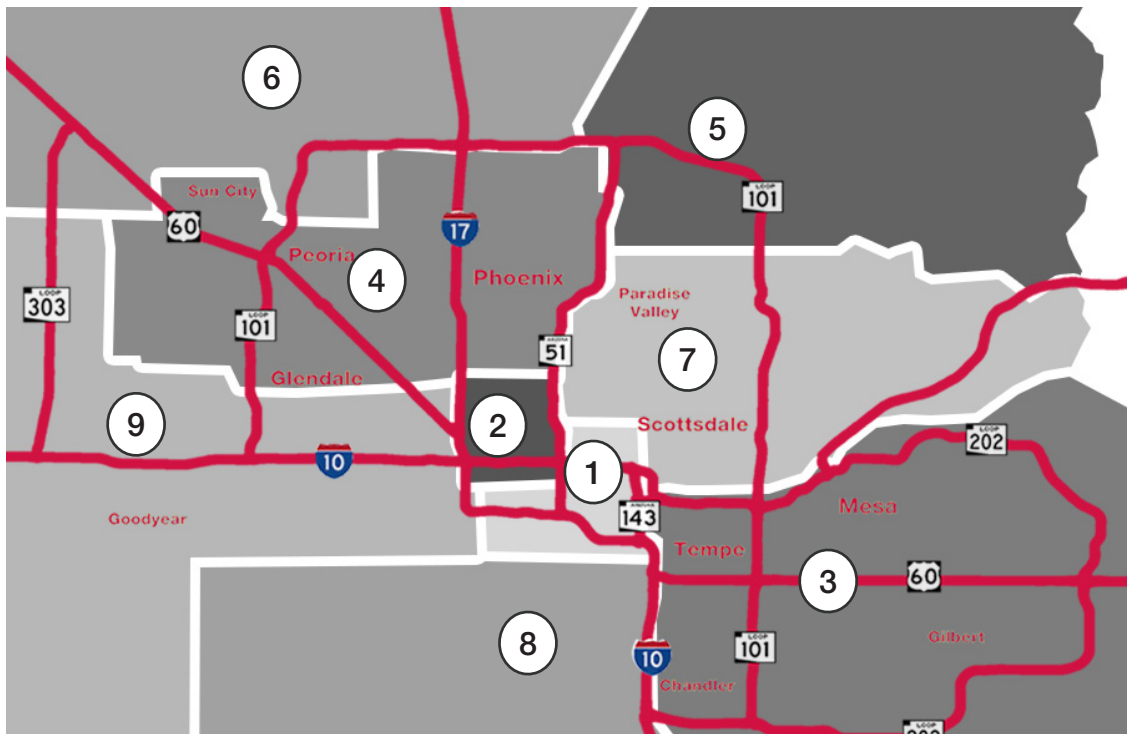
	RBA		Vacant SF		Vacant %		Net Absorption		Under Construction		Avg NNN Rate	
Airport Area	5,608,356	—	280,943	▲	5.0%	▲	(12,842)	▲		—	\$17.18	▲
Downtown Phoenix	7,569,678	▲	768,710	▲	10.2%	▲	(3,586)	▲	27,746	▼	\$16.49	▲
East Valley	75,829,996	▲	5,609,256	▼	7.4%	▼	607,905	▼	529,604	▼	\$15.42	▲
North Phoenix	40,362,955	▲	4,477,157	▼	11.1%	▼	94,204	▼	11,021	▲	\$12.68	▲
North Scottsdale	17,687,135	—	1,275,944	▲	7.2%	▲	(44,703)	▼	96,725	▲	\$21.48	▲
Northwest Phoenix	20,507,921	▲	1,064,542	▼	5.2%	▼	145,105	▲	14,197	▼	\$15.68	▼
Pinal County	10,156,760	▲	625,920	▼	6.2%	▼	93,689	▼	233,394	▲	\$11.48	▼
Scottsdale	19,990,517	▲	1,223,470	▲	6.1%	▲	(56,330)	▼	183,776	▼	\$22.59	▼
South Mountain	6,953,611	—	540,377	▲	7.8%	▲	(3,260)	▲	9,200	—	\$17.28	▼
West Phoenix	24,143,352	▲	1,313,260	▼	5.4%	▼	47,301	▼	98,600	▲	\$14.76	▼
All Submarkets	229,607,848	▲	17,215,003	▼	7.5%	▼	869,483	▼	1,204,263	▲	\$15.32	▲
Overall Total 4Q17	229,349,463	▲	17,864,417	▼	7.8%	▼	1,477,961	▲	1,102,173	▼	\$15.24	▲
Overall Total 3Q17	228,749,539	▲	18,789,754	▼	8.2%	▼	905,679	▲	1,444,584	▲	\$15.07	▼

Rental Rates



Vacancy Rates





Retail Submarkets

- ① Airport Area
- ② Downtown Phoenix
- ③ East Valley
- ④ North Phoenix
- ⑤ North Scottsdale
- ⑥ Northwest Phoenix
- ⑦ Scottsdale
- ⑧ South Mountain
- ⑨ West Phoenix

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NAI Horizon knows commercial real estate. With over 25 years in the Valley, NAI Horizon's extensive market insight allows us to match client needs with the right solutions. NAI Global member firms span the U.S. and 55 other countries, with more than 400 offices and more than 7,000 local market experts on the ground. Supported by the central resources of the NAI Global organization, member firms deliver market-leading services locally, and combine their in-market strengths to form a powerful bond of insights and execution for clients with multi-market challenges.

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